

REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE ON THE AUDIT OF MUTALE LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I was engaged to audit the financial statements of the Mutale Local Municipality, which comprise the statement of financial position as at 30 June 2012, the statements of financial performance, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting authority's report, as set out on pages XXX to XXX.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), Division of Revenue Act (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on conducting the audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the General Notice issued in terms thereof and International Standards on Auditing. Because of the matter(s) described in the Basis for disclaimer of opinion paragraphs, however, I was unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for disclaimer of opinion

Property, plant and equipment

4. An unreconciled difference of R653 237 exists at the end of the 2011-12 financial year between the closing carrying amount of PPE per the underlying accounting records and the balance of PPE as disclosed in note 3 to the financial statements. The municipality imposed a limitation on the scope of my work, as I was not given valid explanations and supporting documentation for the reconciling difference between the accounting records and the financial statements. The municipality's records did not permit the application of alternative audit procedures.
5. There are a significant number of items included in the furniture and equipment balance of R2 365 065 in the financial statements that I could not physically verify. Furthermore, additional assets were identified that were not included in the underlying accounting records. Consequently, I was unable to determine whether any adjustment relating to furniture and equipment in the financial statements was necessary.
6. An unreconciled difference of R242 916 exists between the carrying amount of PPE as disclosed in note 3 to the 2011-12 financial statements per the reconciliation of movements in PPE for the current and prior financial years. Consequently, I was unable to determine whether any adjustment relating to PPE in the financial statements disclosures was necessary.
7. I have identified a number of duplicated assets and assets with negative carrying values in the underlying accounting records of the municipality. The total amount disclosed in respect of these assets in the financial statements amounts to R915 373. The municipality imposed a limitation on the scope of my work, as I was not given valid explanations and supporting documentation for the duplicated assets and reconciliations for the assets with negative values. The municipality's records did not permit the application of alternative audit procedures. Consequently, the impact on the

carrying values of PPE as disclosed in the financial statements could not be determined.

8. The municipality did not depreciate certain classes of assets (fencing, motor vehicles and office equipment) over their useful life as disclosed in note 3 to the financial statements for the 2011-12 financial year and for the 2010-11 financial year. The impact on the carrying values of PPE as disclosed in the financial statements could not be determined.
9. Furthermore, the depreciation provided on motor vehicles with an opening carrying amount of R2 378 054 was calculated by the municipality as R17 per the underlying accounting records. The depreciation was recalculated as amounting to R102 682 for the 2011-12 financial year. Thus a misstatement of R102 665 exists on these assets at year end.
10. The municipality did not review the residual values and useful lives of all classes of assets within property, plant and equipment at each reporting date in accordance with Standards of Generally Recognised Accounting Practice, GRAP 17, *PPE*. This is evidenced by the fact that 48 assets with a gross carrying amount of R28 (2011: R38) are disclosed in the underlying accounting records and financial statements at R1 whilst still being in use by the municipality. Because of the uncertainty inherent in the period of use of these assets by the municipality and due to the nature of the assets, I have not determined the net carrying amount of these assets as it was impractical to do so.
11. The municipality's infrastructure assets were not completely unbundled during the preceding financial year in contravention of Standards of Generally Recognised Accounting Practice, GRAP 17, paragraphs 48 and 49. Because of the nature of these assets, I have not determined the net carrying amount of these assets as it was impractical to do so.
12. The municipality maintains an infrastructure projects register which was not complete for all invoices raised by contractors for infrastructure projects in progress at year end. Consequently, I could not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of additions of R20 066 116 to infrastructure assets during the 2011/12 financial year.

Investment property

13. The municipality processed an adjustment to correct a prior period error on Investment Property, previously recognised as PPE. The amount of the adjustment was shown as a transfer from PPE to Investment Property and was not corrected retrospectively in accordance with Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraph 44 and 45. Thus note 2 to the 2011-12 financial statements is materially misstated, as the prior period error relating to investment property was not correctly recognised as a restatement of the opening balance of investment property for the current and preceding financial year by an amount of R1 896 230.
14. The municipality accounts for investment property using the fair value model in accordance with the Standards of Generally Recognised Accounting Practice, GRAP 16, *Investment Property*. Contrary to the adopted accounting policy, the municipality valued its Investment Property at historical cost. I have not determined the correct value of the investment property of R1 896 230 in the financial statements as it was impractical to do so.

Provision for leave pay

15. The provision for leave amounting to R2 083 469 as disclosed in note 13 to the financial statements was not split between the portion of the provision which is expected to be settled within 12 months of the reporting date and the portion of the provision which is expected to be settled more than 12 months after the reporting date, as required by Standards of Generally Recognised Accounting Practice, GRAP 19, *Provisions*. Furthermore, the value of the provision as determined by the municipality does not take into account the expected mortality rates and discounting of the long term portion of the leave pay provision in terms of the above standard. I have not determined the correct value of the provision for leave pay as it was impractical to do so.

Provision for landfill obligation

16. The municipality raised a provision for an obligation to restore a landfill site amounting to R1 358 721 at the end of the 2011/12 financial year. In terms of Standards of Generally Recognised Accounting Practice, GRAP 19, *Provisions*, paragraph 41, the value of the provision should be measured as the best estimate of the expenditure required to settle the present obligation, resulting from a past event, at the reporting date..

The value of the provision was incorrectly determined in contravention of Standards of Generally Recognised Accounting Practice, GRAP 19, *Provisions*, paragraph 41. Due to the nature of the provision, I was unable to confirm or verify by alternative means the value of the provision included in the financial statements at R1 235 201.

Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the valuation of the provision at year end.

Commitments

17. The municipality disclosed commitments for future capital expenses amounting to R11 813 527 in the financial statements for the 2011/12 financial year. The accounting records supporting the disclosure of commitment for future capital expenses amounting to R11 813 527 in note 29 to the financial statements were identified as being incomplete.

There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all commitments were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of commitments of R11 813 527 as stated in note 29 to the financial statements. Furthermore, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of payables and retention payables balances for the 2011/12 financial year

Revenue

18. The municipality recognised in the 2011-12 financial year revenue of R377 262 from stands that were sold in the 2010-11 financial year. In addition, the municipality sold additional stands in prior financial years amounting to R2 569 571 which have not been disclosed as comparative amounts in the 2011-12 financial statements. In terms of Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*, paragraphs 44 and 45 indicate that errors should be retrospectively corrected by restating the comparative amounts presented and the opening balances of assets, liabilities and net assets for the earliest prior period presented. Consequently, other income on the sales of sites is overstated by R377 262 in the 2011/12 financial year and the amounts presented as comparative

amounts in the financial statements for the 2011/12 financial year are understated by R2 946 833.

19. Included in interest income of R1 153 184 in the financial statements are amounts that should have been recognised by the district municipality in terms of the Municipal Systems Act (Act No. 32 of 2000). I could not reliably determine the interest amount that should be recognised in the accounting records of the local municipality, due to limitations on the municipality's system. Consequently, I was unable to quantify the value of the adjustments required to interest income in the statement of financial performance

Trade and other receivables

20. The accounts receivable balance of R2 145 432, as disclosed in note 8 to the financial statements does not agree to the balance of R2 602 332 per the accounting records. The municipality did not reconcile the difference of R456 900 and provide sufficient appropriate audit evidence or explanations regarding this difference. Due to the nature of the trade and other receivables balances, I was unable to confirm or verify by alternative means the amount of the trade and other receivables balances that should be recognised in the accounting records and financial statements of the municipality and the district municipality for the 2011-12 financial year. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness and valuation of the trade and other receivables balance at year end.
21. The municipality, in the capacity of an agent, collects water related revenue on behalf of the Vhembe District Municipality (VDM), the principal. Included in the receivables balance of R2 145 432 are transactions generated from water related services that should have been transferred to the district municipality. The value of the services rendered for water services could not be determined due to the inability of the municipality's billing system to split services rendered between water and non-water related services. As a result of this limitation, I was unable to determine the amount recognised in trade and other receivables balance in the financial statements that should be transferred to the district municipality.

With reference to the paragraph above and system limitations to split the receivables balance between the municipality and its district municipality, I was unable to determine whether the amount provided as an impairment loss in the financial statements was complete for all receivables balances for the 2011-12 financial year.

22. In terms of Standards of Generally Recognised Accounting Practice, GRAP 9, *Revenue from Exchange Transactions*, paragraph 15 indicates revenue can only be recognised to the extent that it is received or receivable during a financial year. The municipality recognised grants to the amount of R387 743 in excess of the conditional grant received, contrary to the requirements of GRAP 9. This led to the recognition of a receivable balance existing in respect of the grant at year end

Due to the matters reported in the preceding paragraphs, I was unable to determine the effect on the accounts receivable balance in the financial statements.

23. The Municipal Property Rates Act (Act No. 6 of 2004) indicates that a municipality is not obliged to levy rates on public service infrastructure. As a result, the receivables balances relating to road levies amounting to R3 802 323 disclosed as part of the net receivables balances in note 8 to the financial statements are overstated along with the revenue amounts recognised in the current financial year (R921 000) and the prior financial years (R2 881 323) and have not been reversed and corrected retrospectively as a prior period error in accordance with Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*.

24. Included in interest income of R1 153 184 in the financial statements are amounts that have been recognised by the local municipality on public service infrastructure in terms of the Municipal Systems Act (Act No. 32 of 2000). I could not reliably determine the interest amount that should be recognised in the accounting records of the local municipality, due to limitations on the municipality's system. Consequently, I was unable to quantify the value of the adjustments required to interest income in the statement of financial performance.

Payables

25. The municipality identified an error of R1 184 905 that related to the prior year's balance on trade and other payables. This error was not corrected retrospectively in accordance with Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. .

As a result the comparative figures disclosed in the 2011/12 financial statements for payables balances are misstated by an amount of R1 184 905.

26. Included in the trade and other payables age analysis are debit balances amounting to R1 385 727. In addition, the trade and other payables balance did not include invoices to the value of R2 047 571 at year end. In addition, significant differences existed between payables balances per the underlying accounting records and the amounts disclosed.

As a result of the above, the trade and other payables balance disclosed in note 13 to the financial statements of R20 490 731 is misstated for the 2011/12 financial year.

27. Trade payables balances of R3 039 454 in respect of retentions were identified as being understated by an amount of R958 846 in the current financial year. Consequently, infrastructure assets are understated by the same amount.

Accumulated Surplus

28. The municipality processed an adjustment to correct prior period errors. The amount of the adjustment against accumulated surplus was R1 607 663. This error was not corrected retrospectively in accordance with Standards of Generally Recognised Accounting Practice, GRAP 3, *Accounting Policies, Changes in Accounting Estimates and Errors*. Furthermore, the municipality did not re-state the prior year comparative amounts disclosed in the financial statements for trade and other payables (R1 184 905), other income (R2 569 571) and trade and other receivables (R222 997) balances and did adequately disclose the effects of the adjustment in note 32 to the financial statements for the 2011-12 year. The municipality further recorded the net adjustment as a current year movement in the statement of changes in net assets.

Furthermore the municipality did not adequately disclose the effects of the prior period error in terms of the requirements of the above standard which requires the retrospective correction of the accumulated surplus of the prior year.

Inventory

29. Standards of Generally Recognised Accounting Practice, GRAP 12, *Inventory*, paragraph 9 indicates that inventories encompass goods purchased and held for resale, including land and other property held for sale. The municipality recognised other income on the sale of land inventory during the 2011-12 financial year. The land sold by the municipality was never accounted for by the municipality as inventory and was not included as part of the balance of inventory in the 2011-12 financial statements of R107 341 (2011: R346 085).

I was unable to confirm or verify by alternative means the completeness of the land inventory in the possession of the municipality which was omitted from the 2011/12 financial statements.

Consequently, because of the uncertainty mentioned above, I was unable to confirm or verify by alternative means the valuation of the land inventory in the possession of the municipality which was omitted from the financial statements.

30. The valuation of inventory amounting to R107 341 (2011: R346 085) could not be determined at year end due to limitations on the municipality's information system. I was unable to confirm or verify by alternative means the valuation of the inventory in the possession of the municipality. Consequently, I cannot express an opinion on the valuation of inventories held by the municipality as disclosed in note 5 to the financial statements.

Cash Flow statement

31. Presentation of a cash flow statement, summarising the municipality's operating, investing and financing activities, is required by Standards of Generally Recognised Accounting Practice, GRAP 2, *Cash flow statements*. I have noted that the cash flow statement for the prior year did not correctly cast by an amount of R5 758 623. In addition, the cash flow statement for the year contains a material error as the prior period error adjustment of R1 607 663 processed against the accumulated surplus in the current period has been noted as a separate line item in the cash flow statement instead of being allocated to the affected classes of transactions and balances.

Furthermore, due to the multiple uncertainties and misstatements identified for all of the major classes of transactions and account balances mentioned in the preceding paragraphs, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the accuracy, presentation and completeness of the amounts included in the cash flow statement.

Fruitless and wasteful expenditure

32. The municipality did not include particulars of fruitless and wasteful expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. The municipality did not implement processes and procedures to identify record and report on fruitless and wasteful expenditure as evidenced by expenditure amounting to R76 287 that was not identified, recorded and reported. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all fruitless and wasteful expenditure was properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of the fruitless and wasteful expenditure disclosed in note 38 to the financial statements.

Irregular expenditure

33. The municipality did not include particulars of irregular expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. The municipality made payments in contravention of the supply chain management requirements which were not included in irregular expenditure, resulting in irregular expenditure being understated by R5 663 693. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all irregular expenditure with regard to obtaining of quotations and contract management was properly recorded. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of the irregular expenditure disclosed in note 39 to the financial statements.

Unauthorised expenditure

34. The municipality did not include particulars of unauthorised expenditure in the notes to the financial statements as required by section 125(2)(d)(i) of the MFMA. The municipality overspent the budgeted amount for the vote relating to Community and Social Development by R289 236. I have further noted that there is a material amount of unspent conditional grants at year end which are not sufficiently covered by cash and investments. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of the unauthorised expenditure disclosed in note 37 to the financial statements.

Accumulation of immaterial uncorrected misstatements

35. The financial statements as a whole are materially misstated due to the cumulative effect of numerous individually immaterial uncorrected misstatements in the following elements making up the statement of financial position, and the statement of financial performance, and the notes to the financial statements
- Consumer deposits reflected as R212 587 are overstated by R185 816
 - Trade and other payables balances reflected as R20 490 731 are understated by an amount of R185 816

Disclaimer of Opinion

36. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on these financial statements.

Emphasis of matter

37. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material underspending of the budget

38. As disclosed in the Budget Expenditure Analysis by Vote, the municipality has materially underspent the budget on all of the votes to the amount of R21 809 945.

As a consequence, the municipality has not achieved its objectives of administering the municipality properly and delivering services to the citizens within the municipal boundaries.

Additional matter

39. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

40. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

41. In accordance with the PAA and the General Notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

42. I performed procedures to obtain evidence about the usefulness and reliability of the information in the name of annual performance report as set out on pages XXX to XXX of the annual report.
43. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information.
44. The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
45. The material findings are as follows:

Usefulness

Presentation

46. Improvement measures in the annual performance report for a total of 100% of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act (MSA). This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information.

Consistency

47. The MSA, section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 21% of all planned objectives specified in the integrated development plan for the year under review. This was due to a lack of review of and monitoring over the completeness of reporting documents by management.
48. The MSA, section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 85% of all planned indicators specified in the integrated development plan for the year under review. This was due to a lack of review of and monitoring over the completeness of reporting documents by management.
49. The MSA, section 41(c) requires that the actual achievements against all planned indicators and targets must be reported annually. The annual performance report submitted for audit purposes did not include the actual performance of 78% of all planned targets specified in the integrated development plan for the year under review. This was due to a lack of review of and monitoring over the completeness of reporting documents by management.

Measurability

50. The National Treasury FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 75% of the targets relevant to all development objectives were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPI but did not have adequate staff in the IDP unit during the year to enable application of the principles.
51. The National Treasury FMPPI requires that performance targets be measurable. The required performance could not be measured for a total of 75% of the targets relevant to all development objectives. This was due to the fact that management was aware of the requirements of the FMPPI but did not have adequate staff in the IDP unit during the year to enable application of the principles.
52. The National Treasury FMPPI requires that the time period or deadline for delivery be specified. A total of 100% of the targets relevant to all development objectives were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the FMPPI but did not have adequate staff in the IDP unit during the year to enable application of the principles.
53. The National Treasury FMPPI requires that indicators/measures should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators relevant to Basic Service Delivery and Municipal Financial Viability were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but did not have adequate staff in the IDP unit during the year to enable application of the principles.
54. The National Treasury FMPPI that it must be possible to validate the processes and systems that produce the indicator. A total of 53% of the indicators relevant to Basic Service Delivery and Municipal Financial Viability were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was aware of the requirements of the FMPPI but did not have adequate staff in the IDP unit during the year to enable application of the principles.

Reliability of information

Validity, Accuracy and Completeness

55. The National Treasury FMPPI requires that documentation addressing the systems and processes for identifying, collecting, collating, verifying and storing information be properly maintained. The municipality could not provide sufficient appropriate evidence to support the actual performance levels for the selected development priorities. The municipality's records did not permit the application of alternative audit procedures regarding the validity, accuracy and completeness of the reported performance information.

In addition to the above material findings, I draw attention to the following matter:

Achievement of planned targets

56. Of the total number of planned targets, a majority were not fully achieved during the year under review. This represents a majority of total planned targets that were not achieved during the year under review. This was due to underspending of the budget

relevant to the following programmes: Basic Service Delivery and Municipal Financial Viability

Compliance with laws and regulations

57. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the PAA are as follows:

Strategic Planning and performance management

58. The municipality did not establish mechanisms to monitor and review its performance management system, as required by section 40 of the MSA.
59. The municipality did not set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan / as required by section 41 of the MSA.
60. The municipality did not set measurable performance targets with regard to each objective as required by section 41 of the MSA.

Budgets

61. Expenditure was incurred that was in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the MFMA.
62. Quarterly reports were not submitted to the council on the implementation of the budget and on the financial state of affairs of the municipality within 30 days after the end of each quarter, as required by section 52(d) of the MFMA.

Annual Financial Statements, Performance and Annual Reports

63. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were not adequately corrected, which resulted in the financial statements receiving a disclaimer audit opinion.
64. The annual report for the year under review does not include a complete annual performance report, as required by section 121(4)(d) of the MFMA.
65. The annual performance report for the year under review does not include the performance of the municipality and external service providers for the majority of targets within the development priorities of the municipality as required by section 46(1)(a) of the MSA.
66. The annual performance report for the year under review does not include the performance against set targets for the majority of targets within the development priorities of the Municipality as required by section 46(1)(b) of the MSA.
67. The annual performance report for the year under review does not include a comparison with the previous financial year and measures taken to improve performance, as required by section 46(1)(c) of the MSA.

Audit Committees

68. The audit committee did not advise the council, accounting officer and management staff on matters relating to internal financial control and internal audits, risk management, accounting policies, effective governance, performance management and performance evaluation as required by section 166(2)(a) of the MFMA.

69. The audit committee did not meet at least four times a year, as required by section 166(4)(b) of the MFMA.
70. A performance audit committee was not in place and the audit committee established in terms of MFMA section 166(1) was not used for this function, as required by Municipal Planning and Performance Management Regulation 14(2)(a).
71. The performance audit committee was not constituted as required by Municipal Planning and Performance Management Regulation 14(2), as all of the requirements of the section were not adhered to.
72. The audit committee did not review all of the quarterly internal audit reports on performance measurement, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(i).
73. The audit committee did not submit at least twice during the financial year, an audit report on the review of the performance management system to the council, as required by Municipal Planning and Performance Management Regulation 14(4)(a)(iii).

Internal Audit

74. The internal audit unit did not assess the functionality of the performance management system, whether the performance management system complied with the requirements of the MSA and the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators], as required by Municipal Planning and Performance Management Regulation 14(1)(b)(i),(ii) and (iii).
75. The internal audit unit did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by Municipal Planning and Performance Management Regulation 14(1)(c).

Procurement and contract management

76. Goods and services with a transaction value of below R200 000 were procured without obtaining the required number of price quotations as required by SCM regulation 17(a) and (c).
77. Bids were not always evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
78. Construction projects were not always registered with the Construction Industry Development Board (CIDB), as required by section 22 of the CIDB Act and CIDB regulation 18.

Human resource management and compensation

79. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury as required by regulation 14(2)(a) of the Regulations on Minimum Competency Levels.
80. The annual report of the municipality did reflect information on compliance with prescribed minimum competencies as required by regulation 14(2)(b) of the Regulations on Minimum Competency Levels.

Expenditure management

81. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

82. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred, accounted for creditors and correctly accounted for payments made, as required by section 65(2)(b) of the MFMA.
83. The accounting officer did not take effective steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
84. Unauthorised, irregular, fruitless and wasteful expenditure was not recovered from the liable person, as required by section 32(2) of the MFMA.

Conditional grants

85. The municipality submitted quarterly performance reports to the transferring national officer, the relevant provincial treasury and the National Treasury, within 30 days after the end of each quarter, as required by section 12(2)(c) of the DoRA.
86. The municipality evaluated its performance in respect of programmes funded by the allocation and submitted the evaluation to the transferring national officer within two months after the end of the financial year, as required by section 12(6) of the DoRA.
87. The municipality did not timeously submit project registration forms, for projects it intended implementing in the financial year under review, to the department of local government, as required by the Division of Revenue Grant Framework, Gazette No.34280.
88. The municipality did not register its master plans for bulk infrastructure with the Integrated National Electrification Programme (INEP), as required by the Division of Revenue Grant Framework, Gazette No.34280.
89. Projects were not fully implemented in line with the details contained in the Integrated Development Plan, as required by the Division of Revenue Grant Framework, Gazette No.34280.
90. The municipality did not submit its signed activity plan in the prescribed format to the national department (Department of Co-operative Government and Traditional Affairs), as required by the Division of Revenue Grant Framework, Gazette No.34280.
91. The municipality did not submit, within 20 days after the end of each month, its monthly expenditure reports to the national department (CoGTA), as required by the Division of Revenue Grant Framework, Gazette No.34280.

Revenue Management

92. A credit control and debt collection policy was not implemented, as required by section 96(b) of the Municipal Systems Act and section 62(1)(f)(iii) of MFMA.
93. An adequate management, accounting and information system was not in place which recognised revenue when it was earned, accounted for debtors and accounted for receipts of revenue, as required by section 64(2)(e) of the MFMA.

Asset Management and Liability Management

94. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
95. An effective system of internal control for assets (including a complete and accurate asset register) was not in place, as required by section 63(2)(c) of the MFMA.
96. Investments were made without proper care being exercised over the withdrawal of funds from investment accounts, as required by Municipal Investment Regulation 5.
97. A management, accounting and information system which adequately accounts for liabilities was not in place, as required by section 63(2)(a) of the MFMA.

98. An effective system of internal control for liabilities (including a complete and accurate register of liabilities) was not in place, as required by section 63(2)(c) of the MFMA.

Internal control

99. I considered internal control relevant to my audit of the financial statements, the annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for disclaimer of opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

100. Management does not always appropriately provide the required supervision and review over operations to ensure that the municipality complies with all laws and regulations and appoint the necessary skilled staff members. Action plans were developed, however, they were not fully implemented, hence the recurrence of findings identified in the prior year with regard to asset management and water related transactions not adequately monitored and reconciled frequently.

Financial and performance management

101. A lack of adequate technical knowledge within management, a high level of reliance on consultants with regard to the preparation of financial statements and a lack of adherence to laws and regulations resulted in the opinion received on the submitted financial statements and reported performance against predetermined objectives.

Governance

102. Management ineffectiveness in implementing recommendations from internal and external audit prevented the audit committee from promoting accountability and service delivery through evaluating and monitoring responses to risks and providing oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditor-General

Polokwane

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence